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Advisory panel appointed for Argentina; extension approved for SRF repayment

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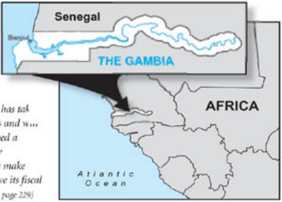
The Gambia tackles poor governance



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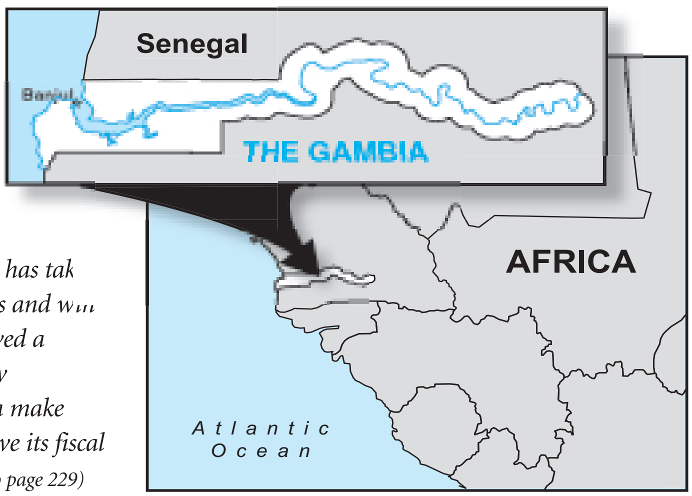

Argentine request for extension approved

(Continued from front page) Köhler added that "we are very grateful that the distinguished members of the panel are able to make themselves available at very short notice for this task." The full text of News Brief 02/61 on the advisory panel is available on the IMF's website (www.imf.org).

Repayment postponed

On July 15, the IMF also announced that its Executive Board approved a request from Argentina for a one-year extension on a repayment of SDR 741 million (about $985 million) due on July 17 under a Supplemental Reserve Facility (SRF) arrangement with the IMF. Financing for Argentina under the SRF had originally been approved as part of a Stand-By credit on January 12, 2001 (see *IMF Survey*, January 8, 2001) to ease a short-term financing constraint.

Repayment of an SRF is normally expected in two installments at one year and at one and a half years after the SRF disbursement, which in Argentina's case would be on July 17, 2002. A borrower may request an extension of up to one year of the expected repayment period under the SRF. An extension can be granted if repayment would cause undue hardship and if the borrower is taking actions to strengthen its balance of payments. At the end of the extension, the country is obligated to repay the SRF.

Commenting on the Executive Board's decision, Köhler noted that the Executive Board granted the Argentine authorities' request for an extension "as Argentina's external position is not sufficiently strong for it to meet the current repurchase expectation without undue hardship or risk."

He added that "the economic situation in Argentina remains extremely difficult, even though the decline in output may be decelerating in some sectors and preliminary data indicate a firming of industrial production in the second quarter of 2002; the public finances have also improved in the same period." He also commended the authorities "for keeping control over public spending in this situation, and for their decision to remain current with their multilateral obligations—thereby retaining access to multilateral lending."

Kohler also observed that "there has been some recent progress in key policy areas, including the satisfactory amendments to the insolvency law and the repeal of the economic subversion law. Building on the growing support of key provinces for the bilateral agreements aimed at ensuring an orderly adjustment of the provincial finances, the authorities are working to complete the process of putting in place the bilateral agreements with the provinces and finalizing the fiscal framework. The next stage of the IMF's dialogue with the authorities will focus mainly on the adoption of a strategy to strengthen the banking sector, enhancing central bank independence, and developing a credible monetary anchor. Progress in the negotiations in these areas would facilitate reaching a strong and comprehensive program designed to underpin a sustained economic recovery, and warrant IMF support." ■

The full text of Press Release 02/23 on the repayment extension is available on the IMF website (www.imf.org).

Euro-area outlook is unsettled, but potential for renewed grow remains

Economic recovery in the 12-country euro area appears to be off to a soft start, according to an IMF staff statement issued on July 12 after the organization's regular consultation with euro-area officials. The weaker-than-expected growth rates are due in part to a plunging stock market and an appreciation of the euro, which is expected to restrain domestic demand in the short term. Overall, these recent developments suggest that, unless the global recovery gathers strength, growth in the euro area in 2002 will falter despite the gradual upturn of economic activity that began in the first quarter of this year.

Barring significantly more pronounced shocks than those seen so far, however, the IMF staff reports that the region's prospect "would seem to remain one of an upswing back to potential growth." For one thing, the appreciation of the euro should have a positive impact on consumer confidence and spending in the long run and thus help jump-start domestic demand.

Monetary policy

The inflation outlook in the euro area presents more of a concern. Although the recent acceleration in inflation is attributable in part to the one-off effects of weather, energy, and the euro changeover, it also coincided with wage pressures, increases in inflationary expectations, and supportive monetary conditions. In this environment, inflation was expected to recede slowly to just below 2 percent in 2003. The staff noted that the appreciation of the euro relieves price pressures and that faltering growth makes it less likely that inflation will be problematic. As a result, the pressure on monetary policy has eased, and the ECB has gained some breathing room to determine what to do with interest rates.

As for the IMF's concern that the ECB's price stability objective may be too low, the staff noted recent statements by

Dawson speech

The IMF in Asia: part of the problem or part of the solution?

Five years after the onset of the Asian crisis, IMF External Relations Director Thomas Dawson addressed Singapore's Institute of Policy Studies and the Singapore Management University Forum on July 10 on what the IMF has learned from that experience and how it has translated that into reforms. Following are edited excerpts of his remarks; the full text is available on the IMF's website (www.imf.org).

I'm happy to get away from the United States for a few days and get a break from all the talk of crony capitalism, lack of transparency, collapsing asset values, and large current account deficits. What a difference five years makes! It is the United States that is now going through a time of soul-searching and adjustment, while East Asia appears to be back on track.

But let me turn to our theme today. Is the IMF part of the problem in Asia or part of the solution? The Asian crisis tested the IMF as never before. Many questioned our advice to the crisis countries on the appropriate fiscal policy and monetary policy to follow, and the latter remains a topic of intense debate to this day. Some of the conditions attached to the IMF-supported programs were criticized as being so extensive that they strained countries' capacity to implement reforms and tested the bounds of the IMF's expertise. In short, almost every aspect of our core operations came in for scrutiny and criticism.

Roots of the Asian crisis

The Asian crisis was the result of the interaction of several factors. According to some, one factor was the zeal shown by the U.S. Treasury and the IMF in encouraging countries to open up to short-term foreign capital in the mid-1990s and whose subsequent hasty exodus was devastating.

Dawson: "The IMF did not encourage countries to liberalize short-term flows through the banking sector, which turned out to be the Achilles' heel during the Asian crisis."

This popular characterization of a greater push toward capital account liberalization is broadly correct but inaccurate in many important details. The IMF did not encourage countries to liberalize short-term flows through the banking sector, which turned out to be the Achilles' heel during the Asian crisis. And many countries liberalize for their own reasons in response to external prodding. As a result of the criticism received during and after the crisis, however, the IMF is now more vocal in pointing out the risks of rapid capital

ECB officials recognizing that vigilance would be necessary in the event that inflation fell to excessively low levels and that a small positive rate of inflation "say, between 1 and 2 percent," would significantly reduce the risks of getting trapped in a deflationary spiral.

Fiscal policy

On the fiscal front, the main issue in the euro area is for the three largest economies—Germany, France, and Italy—to meet their commitments to achieve a budget close to balance or in surplus by 2004 and "thereby impart badly needed credibility to the Stability and Growth Pact." In the view of the IMF staff, the Stability and Growth framework is sound and well-suited to the fiscally decentralized structure of the union. Although individual members have had difficulty meeting their commitments, the IMF views the decisions made to date as permitting these countries "to adjust in the upswing phase of the cycle." The IMF estimates that the adjustments the three countries must make to achieve fiscal balance are "difficult but doable." The quality of the adjustment, according to the IMF—that is, the extent to which it addresses longstanding issues in key spending areas—is crucial to the sustainability of the consolidation effort. Thus, it is important that tax cuts be financed by upfront expenditure restraint.

Structural issues

Increased integration of the product and services markets in the euro area, according to the IMF staff, has been a longstanding rationale for the very existence of the European Union (EU). "Recent evidence suggests that progress in integrating goods markets is being hampered by the slow progress in liberalizing trade in services, thereby limiting market access." Although unemployment in the euro area has fallen recently, the EU's overall use of labor resources remains low. Labor market reforms, therefore, need to remain a key priority.

For the full text of the Concluding Statement of the IMF Mission on the Economic Policies of the Euro Area, see the IMF's website (www.imf.org).

To the extent that there is a professional consensus at the moment, it is that the costs of letting the exchange rate go are much higher than those of a temporary increase in interest rates.
—Thomas Dawson

account liberalization. Six weeks ago, for instance, we advised Sri Lanka against opening up its capital account until its financial sector was further strengthened.

Was the IMF right in Asia?

One feature of our macroeconomic policy advice during the Asian crisis that has drawn a lot of attention is the belt-tightening recommended to Thailand at the start of the crisis. In July 1997, Thailand was still expected to post reasonable growth, had a huge and growing current account deficit, and faced large, though as yet unrecognized, fiscal liabilities in recapitalizing the financial system. It was against this background that the IMF recommended a roughly unchanged fiscal position. However, once the scope of the crisis in Thailand and in the region became evident, we quickly changed course. As a result of our experience during the Asian crisis, our fiscal policy advice is now much more attuned to the need to allow automatic stabilizers to work and to shield vulnerable segments of the population from the effects of the financial crisis.

The more acrimonious debate is the appropriateness of the IMF's advice on monetary policy during the Asian crisis. The IMF's position—that a temporary increase in interest rates may be necessary to restore financial stability during a crisis—continues to have its supporters. As [former U.S. Treasury Secretary] Larry Summers noted recently, "when a country's exchange rate is declining rapidly because capital is trying to leave the country, and the country's financial institutions are in real trouble, there is a fundamental conflict between restoring external confidence by raising interest rates and providing for financial repair through increased liquidity. It's a classic problem of a single instrument and multiple targets. Confidence is widely recognized as essential in combating financial crises."

Others have taken similar positions. [MIT professor] Rudi Dornbusch, for instance, says that "investors will take confidence and bring money back when they see fiscal conservatism and high interest rates. Do that for a few months and you are on the right track." Our former chief economist Michael Mussa said that those who advocate lowering interest rates at the onset of a financial crisis are smoking something "not entirely legal."

The debate over this issue has launched a thousand doctoral dissertations. To the extent that there is a professional consensus at the moment, it is that the costs of letting the exchange rate go are much higher than those of a temporary increase in interest rates. The issue is far from settled, but clearly what's needed is honest debate and a closer look at the empirical evidence, not polemics.

Changed conditionality

How has the Asian experience influenced the IMF's view of the conditions [IMF conditionality] attached to the use of IMF funding? Exactly one year ago, the Japanese ministry of finance and the IMF convened a conference in Tokyo that brought together many of the key players during the Asian crisis. Some of the Asian policymakers wondered if all the conditions had been necessary or effective. The Philippine central bank's Cy Tetangco noted that his country was a "veteran" of negotiations with the IMF. While acknowledging the overall benefits of IMF assistance and conditionality, Tetangco pointed out that the 1998 program had over 100 conditions in 8 areas. Some of these, he said, were critical to helping the Philippines weather the crisis; many others were not or, in any event, could have been better handled by the multilateral developments banks. In Indonesia, Mr. Boediono (currently the country's finance minister) observed that "perhaps the dismantling of the clove monopoly and the rationalization of the national car and airplane industries could have been postponed until our head was above water." As a result of these inputs and our own internal assessments, the IMF has been moving to have fewer and less intrusive conditions and to limit them to areas critical to achieving the goals of the IMF-supported program.

We have also been looking into the possibility of disbursing IMF money as certain outcomes are attained. This could help avoid micromanagement by the IMF and address another concern at the Tokyo conference—that IMF programs be flexible enough to allow countries some choice in achieving commonly agreed goals. One participant cited Deng Tsiao-Ping's advice that it does not matter whether the cat is black or white, as long as it catches mice.

The way the IMF has gone about its current "conditionality review" also illustrates how the IMF has increasingly been carrying out its reforms. We have encouraged open debate by holding conferences in Tokyo and elsewhere and have invited comments through our website. And we have relied, of course, on the wide experience of our own staff, and the judgments of our Executive Board.

Many of the changes I've described are of fairly recent vintage, so I do not want to claim that they have transformed the IMF's way of doing business completely as yet. But I hope they at least convey the sense that the institution is trying very hard to change and trying very hard to be part of the solution to Asia's challenges. ■

The Gambia moves to revive economy

(Continued from front page) Throughout the mid-1980s and early 1990s, The Gambia successfully implemented a wide range of financial and structural reforms. The country turned its economic fortunes around (see table, this page) on the strength of its Economic Recovery Program, launched in 1985 and designed to restore financial stability and lay the foundation for sustained economic growth, and its Program for Sustained Development, begun in 1990, to stimulate private sector development. These back-to-back adjustment efforts benefited from sustained financial support and technical assistance from the IMF and other multilateral and bilateral creditors and donors.

These early adjustment efforts reversed declines in GDP, and the economy recorded modest real growth, increasing imports to address supply constraints, lifting virtually all controls on interest rates, and eliminating external arrears while building up international reserves by the end of 1991/92. The country also made strides in improving its resource allocation, reducing price and other government controls; introducing a market-determined exchange rate, and liberalizing marketing arrangements for groundnuts—its principal cash crop.

Privatization efforts, however, met with mixed results. The sale of The Gambia's Oilseeds Processing and Marketing Company (one of the largest public enterprises) to The Gambia Groundnut Corporation (a marketing monopoly owned by the Swiss firm Alimenta) lacked transparency and a support mechanism for farmers. These problems created an uneasy relationship between the government and Alimenta that later erupted into a major conflict between them.

Shocks and reversals

Generally favorable developments came to an abrupt halt in 1993, when The Gambia was buffeted by a series of external shocks and internal turmoil that would increase poverty and undo some of the progress made in developing a sound macroeconomic environment. The Gambia, a major regional trading center, saw its reexport activities—which accounted for about 80 percent of its exports and 35 percent of its imports—severely affected by a suspension of repurchases of the CFA franc notes (at the time the major trading currency in the country) outside the CFA zone; a tightening of border controls by Senegal; and a substantial devaluation of the CFA franc (in January 1994).

The government, which since 1992 had been preparing a comprehensive plan to reduce poverty, approached donors for increased aid. However, shortly after a successful presentation of the plan to a roundtable donor meeting in Geneva, the democratically elected civilian government was toppled in a military coup in July 1994. Donors cut off all nonhumanitarian aid, leaving the new military government with no external resources to address poverty and no technical assistance to tackle the country's already weak institutional capacity.

Political and other uncertainties rippled through the economy, resulting in lower growth and reversals in a number of other economic indicators. With the issuance of travel advisories, tourist arrivals into The Gambia were nearly halved in 1994/95, with a corresponding decline in tourist-related services. Real GDP, which had

The Gambia looks to further bolster growth, but fiscal performance remains a concern

	Pre-program 1982/83–1984/85	SAF/ESAF 1985/86–1991/92	1992/93–1997[1]	ESAF/PRGF 1998–2001	2002 Prog.	2003 Proj.	2004 Proj.	**2005 Proj.**
	(percent change, unless otherwise specified)							
Real GDP	–3.3	3.6	1.7	5.3	6.0	6.0	6.0	6.2
Groundnut production (metric tons)	109.5	99.0	66.7	120.9	125.0	128.0	130.0	135.0
CPI (end of period)	16.3	20.2	6.8	2.5	5.5	4.0	3.0	3.0
Exports, f.o.b.	29.7	4.8	–5.5	9.4	8.2	4.5	3.5	5.0
Imports	2.9	6.4	0.0	8.0	2.7	3.6	1.9	2.5
Real effective exchange rate	–2.1	–2.7	–0.1	–4.1	...	...	...	...
M2 growth	23.8	19.7	11.3	19.1	13.2	9.9	9.6	9.3
	(percent of GDP)							
Fiscal balance, excluding grants[2]	–12.2	–8.4	–9.6	–5.4	–5.0	–2.7	–2.3	–2.1
External current account balance[3]	–9.0	–16.1	–15.0	–12.6	–13.2	–12.1	–11.6	–10.2
Official transfers	6.5	17.2	8.7	7.9	8.2	7.1	6.8	7.6
	(million SDRs, unless otherwise specified)							
Gross official reserves	3.6	26.9	70.2	80.3	87.7	93.8	100.2	105.1
Months of imports	0.3	2.4	5.4	5.5	5.1	5.3	5.5	5.6
External payment arrears (end of period)	54.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Donor assistance	17.1	33.1	22.6	24.2	25.4	23.5	23.3	27.4

[1]In 1997, The Gambia shifted from the fiscal year to the calendar year.
[2]Excludes HIPC-funded and PRSP-related expenditure.
[3]Excluding official transfers; also excludes PRSP-related imports.
Data: IMF, *World Economic Outlook, International Financial Statistics,* and staff estimates

Amid progress in restoring democracy and improving donor relations, and advances on a number of structural reforms, the government finalized its PRSP.

recovered significantly during the late 1980s and early 1990s, contracted by 4 percent in 1994/95 and, on average, remained low—below the rate of population growth—through 1997.

With the poor performance of the reexport and tourism sectors, domestic government revenues also tumbled (declining by more than 4 percent of GDP during 1994/95–1995/96), and expenditure increased significantly—reaching a peak of 30 percent of GDP in 1995/96 and signaling the reemergence of severe financial imbalances. The overall deficit, excluding grants, more than quintupled, and the growth in broad money more than doubled in 1994/95, as the government increasingly resorted to the domestic banking system to fund its activities. As a result, the stock of government domestic debt doubled, rising to about 23½ percent of GDP at the end of 1997. Heavy domestic government borrowing also crowded out private sector credit, which contracted during the period.

Getting back on track

When a new government assumed office in 1997, following elections marred by a ban on several major opposition parties, the highest priorities were to halt the economic slide and restore relations with the donor community. With a resumption of some aid from the international community, including an Enhanced Structural Adjustment Facility (ESAF) Arrangement with the IMF in 1998, the authorities launched a comprehensive economic program to reestablish a sound and sustainable macroeconomic environment supported by structural reforms.

The new effort focused on improving public finances and strengthening the role of the private sector in the economy. When the IMF recast its financial assistance for low-income countries to give greater attention to fighting poverty, The Gambia developed a new poverty reduction strategy and sought support from the IMF under its Poverty Reduction and Growth Facility (PRGF). In 2000, The Gambia submitted its new poverty alleviation strategy to the Executive Boards of the IMF and the World Bank as its interim poverty reduction strategy paper (PRSP). The two boards reviewed the interim PRSP and concurrently approved, in November 2000, The Gambia's eligibility for debt relief (SDR 67 million in net present value terms or SDR 91 million in current value) under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

With the support of the IMF and other donors, The Gambia made substantial progress in reducing macroeconomic imbalances and tackled a range of structural and institutional reforms. Fiscal policy was tightened appreciably; consumer price inflation remained below 4 percent a year during 1998–2001, thanks partly to favorable weather; exports and imports recovered; external balances improved with a reduction in the current account deficit; and international reserves rose further. Real GDP growth increased to an average 5¼ percent annually. Marketing reforms, provision of extension services, improved inputs, and access to credit spurred a recovery in the agricultural sector, and a marked increase in tourist arrivals helped boost growth in tourism.

The Gambia also further liberalized its trade regime, reducing tariffs to 18 percent from a top rate of 90 percent, and cutting the number of tariff bands to 3 from more than 30. The tariff reforms, in combination with a 4 percent depreciation in the dalasi, boosted international competitiveness. In other areas, the country moved to improve the quality of its data, agreeing to participate in the IMF General Data Dissemination System (a yardstick to guide countries that wish to bring their data up to international standards); introduced measures to strengthen its national accounts; and took steps to improve price, monetary, balance of payments, and customs data. To strengthen the private sector's role in the economy, new laws were enacted to bolster monetary policy operations and the supervision of financial institutions; establish a regulatory and privatization framework and support institutions; and set up a one-stop investment center and export-processing zone.

The road to economic recovery and reform was not without its bumps, however. In 1999, the government seized property belonging to The Gambia Groundnut Corporation without compensation. Alimenta took the case to the International Center for Settlement of Investment Disputes, but the government, in collaboration with the European Union (the lead donor in the groundnut sector) and the IMF, reached an out-of-court settlement. The incident prevented completion of the first review of the ESAF arrangement with the IMF, but the lessons from the experience led to reforms to make privatization more transparent and regulate economic activity more effectively. Under these new measures, plans are under way to privatize the former Alimenta assets (which reverted to government ownership as a result of the 2001 settlement) and other key enterprises, including the telecommunications sector.

On the fiscal front, the picture was complicated by payments to Alimenta (the equivalent of 2 percent of GDP in 2001), a delay in donor disbursements, and shortfalls in customs revenue (in part a product of a poorly planned and executed preshipment inspection scheme).

Picking up steam

In recognition of the role that governance issues have played in the ups and downs of its recent economic history, The Gambia adopted a governance policy framework as one of the five pillars of its PRSP. Implementation of the governance program has been uneven and will likely remain a challenge, but it picked up momentum in April 2002 when the National Assembly approved a measure that enhances the role of local authorities in policy formulation and the budget process—key to the PRSP exercise.

In June 2001—in advance of presidential elections last year and of parliamentary and local elections this year—the government lifted its ban on the participation of some major opposition parties in the electoral process. This consolidation of the country's transition to democracy prompted the United States to normalize donor relations and restore economic aid, which had been suspended since the coup in 1994.

Amid progress in restoring democracy and improving donor relations, and advances on a number of

Governance lapses have been costly but are largely resolved

Year	Major incidents	Issues/impact	Resolution
1993	Privatization of groundnut monopoly	Lacked transparency and appropriate regulatory framework. Public monopoly became private monopoly with less access by competitors to groundnut processing plants.	Unresolved; played a role in government seizure of the private monopoly's (Gambia Groundnut Corporation's) property.
1994	Military coup	Nonhumanitarian donor assistance suspended during 1994–97. Travel advisories sharply reduced tourism.	Parliamentary and presidential elections held, 1996/97. Opposition parties permitted to participate in elections, 2001/02. Former President Dawda Jawara was granted amnesty and returned home, 2002.
1999	Government seizure of Gambia Groundnut Corporation property	Damaged investor confidence and reforms to improve groundnut marketing.	Alimenta (parent company of Gambia Groundnut Corporation) paid $11.4 million settlement in August 2001.
	Introduction of preshipment inspection scheme for imports	Noncompetitive contract and inadequate preparation. Loss of customs revenue of 1.2 percent of GDP in the fourth quarter of 1999.	Scheme removed, July 2000.
2000/01	Delayed local elections, discharge of key public officials, and expulsion of diplomats	Concerns by donors, postponed roundtable meeting from mid-2001 adversely affecting preparation of PRSP. Delayed aid disbursement.	Disputes settled with donors. Local elections held in early 2002. See below.
2001	Privatization of most mobile phone operations.	Noncompetitive award to privatize 80 percent of mobile telephone operations. Violated contract with Alcatel.	Decision rescinded in April; will follow privatization framework.

Governance policy framework

Since 1997, the government has initiated reforms to establish an overall policy framework for governance. This policy framework was formulated at a series of workshops on good governance and public administration reform held since 1997, including a July 1999 workshop and a donor/nongovernmental roundtable meeting in October 1999 in Banjul, both assisted by the United Nations Development Program. It provides a comprehensive national program for establishing and strengthening democratic and administrative institutions and processes in The Gambia and for enhancing public participation. It is one of the five pillars of the poverty reduction strategy paper (PRSP).

The program will be implemented through six strategic and integrated components that will

- review constitutional and electoral processes to enhance capacity for administration of elections;
- strengthen parliamentary structures and processes to improve supervision of government activities;
- promote civic education to strengthen the capacity of local civic organizations and political parties to participate more effectively in government activities and development issues;
- reform local and judicial processes to introduce flexible mechanisms—such as arbitration, mediation, and conciliation—for ensuring access to justice;
- design and implement systemic and procedural changes in the management of public resources that will ensure openness, transparency, and accountability; and
- decentralize and reform local government systems to promote community participation and improve the delivery of development services to communities.

Two key issues will be to avoid new governance lapses while mitigating existing ones and to resolutely reduce the government deficit and domestic debt, which will free up additional resources to help with poverty reduction.

structural reforms, the government finalized its PRSP, which outlines a more comprehensive approach to poverty reduction and taps wider participation from civil society, including the poor. The authorities also committed themselves to a new adjustment and reform program supported by the IMF's PRGF and won assurances of more technical assistance from the IMF and other donors, focused on building up the country's institutional capacity.

Broadly in line with the country's PRSP goals, the medium-term economic framework for 2002/03–2004/05 highlights a number of objectives: roughly 6 percent annual real GDP growth; 3$^3/_4$ percent annual average inflation; an external current account deficit (excluding official transfers) of 10$^1/_4$ percent of GDP by 2005; gross external reserves equivalent to five months of imports of goods and services; a reduction in the overall budget deficit (excluding grants) to 5 percent of GDP in 2002 and a further decline to 2 percent by 2005; marked increases in total and government investment (with projected increases, by 2005, of 22 percent and 7 percent, respectively); and a boost in the government saving-investment balance to improve the external current account position.

As The Gambia moves ahead to consolidate economic growth and poverty reduction, increased donor support will be formalized at a planned September 2002 round-table in Geneva. Efforts will also be made to improve the coordination of technical assistance to strengthen institutional capacity.

The challenge now for The Gambia is to persevere with economic adjustment and reforms in the context of the PRSP, the enhanced HIPC Initiative, and the PRGF-supported program. Two key issues will be to avoid new governance lapses while mitigating existing ones and to resolutely reduce the government deficit and domestic debt, which will free up additional resources to help with poverty reduction. ■

Robin Kibuka and Meshack Tjirongo
IMF African Department

Available on the web (www.imf.org)

Public Information Notices

02/64: IMF Concludes 2001 Article IV Consultation with Zimbabwe, June 19
02/65: IMF Concludes 2002 Article IV Consultation with the Republic of Poland, June 26
02/66: IMF Concludes 2002 Article IV Consultation with the Dominican Republic, June 26
02/67: IMF Concludes 2002 Article IV Consultation with Iceland, July 3
02/68: IMF Concludes 2002 Article IV Consultation with the Republic of Estonia, July 3
02/69: IMF Concludes 2002 Article IV Consultation with Mozambique, July 9
02/70: IMF Discusses Assessments of Sustainability, July 11

News Briefs

02/58: IMF Completes First Review of the Kyrgyz Republic Under the Three-Year Arrangement Under the PRGF, July 2
02/59: IMF Completes Second Review of Pakistan's PRGF-Supported Program, Approves $114 Million Disbursement, July 3
02/60: IMF Gives Final Approval of Second Review of Vietnam's PRGF Loan, July 3
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"The IMF in the Process of Change," IMF Managing Director Horst Köhler, Treasury Select Committee, House of Commons, London, July 4

"Reform of the International Financial Architecture: A Work in Progress," IMF Managing Director Horst Köhler, Central Bank Governors' Symposium, Bank of England Conference Center, July 5

"The IMF's Role in Asia: Part of the Problem or Part of the Solution?" Thomas C. Dawson, Director, IMF External Relations Department, Institute of Policy Studies and Singapore Management University Forum, Singapore, July 10 (see page 228)

"International Capital Data: Needs, Projects, and Prospects," Carol S. Carson, Director, IMF Statistics Department, Economic Statistics: New Needs for the 21st Century Conference, New York, July 11

IMF Working Paper

Making the transition to inflation targeting

Inflation targeting has become a popular framework for the conduct of monetary policy. The challenges that industrial countries face in adopting such a framework are well understood. But what do emerging market countries need to be thinking about as they look to adopt inflation targeting? In the just-released Working Paper, Establishing Initial Conditions in Support of Inflation Targeting, *Alina Carare, Andrea Schaechter, Mark Stone, and Mark Zelmer examine the issues for emerging market countries and offer practical advice on how to create the initial conditions needed to support an inflation targeting framework.*

Under an inflation targeting framework, the inflation target prevails over any other policy objective, with the inflation forecast serving as the intermediate guide. But how do countries adopt such a framework? How do they make the transition from other monetary policy regimes? For emerging market countries, the steps taken in this transition process offer their own rewards. The steps, the authors say, are useful not only for countries willing and able to adopt inflation targeting but also for those that have decided to float their exchange rates (at least within fairly large bands) and are not able to adopt full-fledged inflation targeting. For this latter group, a preannounced inflation target might still be preferable to a monetary aggregate anchor, such as the monetary base or a broader measure of money.

Why initial conditions matter

For emerging market countries, there are broadly four key initial conditions: a mandate in support of an inflation objective and accountability for achieving this objective; macroeconomic stability; a sufficiently well developed and stable financial system; and effective policy implementation tools. The absence of some of these conditions, however, should not prevent countries from adopting inflation targeting, especially when policies are being introduced to establish the conditions in the short and medium terms. According to the authors, even if a country decides not to pursue an inflation target, the initial conditions listed in the paper are important for the successful conduct of monetary policy regardless of the monetary regime. The decision for inflation targeting should be based on the costs and benefits of this framework against alternative monetary policy regimes.

Mandate and accountability

A central bank should have a clear mandate to pursue the inflation target and sufficient discretion and independence to set its monetary instruments as needed to pursue the target. Involving the government in setting the targets, the authors maintain, would strengthen the credibility of the inflation targeting framework by indirectly committing the government to operate fiscal policy in a way that supports the inflation objective.

Central banks that adopt inflation targeting should be held accountable for the actions they take to pursue the inflation targets. To ensure that the public has enough information to hold the central bank accountable, the monetary framework should be transparent.

Macroeconomic stability

Macroeconomic instability can compromise the credibility of the inflation target by burdening the central bank with conflicting objectives. In the aftermath of a crisis or a period of unfavorable developments, the authors caution countries to allow enough time to pass to ensure that the inflation target will not be subordinated to other objectives.

The effective conduct of monetary policy with an inflation target requires that monetary policy not be dominated by fiscal needs. The authors urge emerging market countries to minimize the possibility of monetizing a large fiscal deficit (when the government finances its deficit by borrowing from the central bank). A strong fiscal position, they argue, strengthens the credibility of the inflation targeting framework and thus can limit the real costs to the economy of bringing inflation down.

For countries with a history of high inflation, a strong fiscal position is essential for establishing the credibility of an inflation targeting framework. The stock of government debt outstanding and the economy's vulnerability to shocks also play a role in determining whether the framework might be undermined by fiscal priorities. Countries that have enjoyed low inflation and are able to access markets to meet their financial requirements are less likely to be affected by the government's fiscal situation and tax collection ability. To contain concerns that it might monetize fiscal deficits, the central bank must be able to set policy instruments without government oversight. In addition, the government needs to set clear limits on its use of central bank financing.

The effective conduct of monetary policy with an inflation target requires that monetary policy not be dominated by fiscal needs.

A country's external position, the authors stress, should be strong enough to allow monetary policy to focus on pursuing the inflation target without being sidetracked by developments in the foreign exchange market. Policy measures are available to reduce potential conflicts between an inflation target and external instability. The most important is making sure that prudential supervision and monitoring of bank and nonbank financial institutions are maintained at high standards. Measures should also be taken to broaden and deepen financial markets.

At the outset of full-fledged inflation targeting, inflation should be low enough to ensure a reasonable degree of monetary control. Most industrial countries that have adopted a full-fledged inflation targeting framework did so at a time when inflation was declining. Countries that started with higher rates of inflation and crawling exchange rate regimes brought their inflation down over long transition periods to limit disruptions to the real economy.

Financial system stability and development

Financial stability allows the central bank to focus on the inflation target. Markets should view inflation targeting candidates as having minimal vulnerability to crisis. This enables monetary policy to pursue inflation targets and not be sidetracked by concerns about the health of the financial sector. Financial system stability bolsters the credibility of monetary policy, thereby helping to anchor inflation expectations to the inflation target.

Financial stability is a greater concern for the central banks of emerging market countries embarking on establishing an inflation targeting framework because these countries are more vulnerable to financial crises. For this reason, the authors say, emerging market countries may want to wait longer after a financial crisis than industrial countries before adopting this framework. In the meantime, emerging market countries can move forward with the resolution of insolvent financial institutions and the adoption of sound supervisory practices to improve the stability of their financial systems.

According to the authors, financial markets should also be sufficiently well developed to enable monetary policy to be implemented using market-based instruments and to make sure that the conduct of monetary policy is not complicated by weaknesses in financial market infrastructure. Deep and liquid financial markets ensure that movements in asset prices convey information to the central bank on economic fundamentals and market expectations regarding future monetary actions. Furthermore, deep and liquid financial markets help absorb shocks, thereby allowing the central bank to focus more on achieving the inflation target than on minimizing the impact of short-term shocks or preserving financial stability.

Conduct of monetary policy

An inflation targeting central bank must choose effective monetary policy instruments and an operating guide to pursue its inflation goal. Most full-fledged inflation targeting central banks use a short-term interest rate as their guide.

All inflation targeting central banks use market-based indirect instruments—the instrument of choice is open market operations—to set the operating guide because they can be used to manage liquidity effectively, respond quickly to inflationary shocks, and signal the policy intentions of the central bank while minimizing credit risk and promoting the development of financial markets. Still, there are no hard-and-fast rules for choosing the instruments and the operating guide; they need to be tailored to the structure of a country's financial system.

For monetary policy to work, central banks must have a clear view about the monetary policy transmission mechanism—that is, the connection between changes in the monetary policy instruments and their effect on aggregate demand and inflation. The uncertainty inherent in the transmission of monetary policy to inflation is one of the main challenges faced by inflation targeting central banks, especially those in emerging market countries. Central banks, the authors point out, have many means available to strengthen their understanding of the transmission links, such as financial reforms to improve the operation of money markets and the banking system, measures to improve the transparency of monetary policy, and the allocation of more internal central bank resources to economic analysis.

Under an inflation targeting regime, the monetary policy stance is adjusted whenever there is evidence that

Members' use of IMF credit
(million SDRs)

	During June 2002	January–June 2002	January–June 2001
General Resources Account	8,371.13	17,755.02	9,372.65
Stand-By	8,095.89	16,818.41	9,261.53
SRF	6,762.62	6,762.62	4,007.28
EFF	275.24	936.61	111.12
CFF	0.00	0.00	0.00
PRGF	488.35	811.38	302.89
Total	8,859.48	18,566.40	9,675.54

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CFF = Compensatory Financing Facility
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

future inflation might differ from the target path. The inflation forecast is thus crucial, but forecasting has proved difficult for many emerging market economies because they lack experience working with forward-looking indicators and their economies have undergone significant structural changes. The authors advise emerging market countries to take advantage of the models and indicators used by other inflation targeters and modify them for specific country circumstances. Central banks would do well, too, to discuss developments that may affect future inflation with private sector officials and financial market participants.

The authors emphasize, in particular, that in an inflation targeting framework, the inflation target must take precedence over any exchange rate objective. Central banks should not try to target both the nominal exchange rate and the inflation rate—and, hence, try to influence the real exchange rate—even in the presence of competitiveness concerns or current account pressures. The reason is that in the medium and long terms, monetary policy can affect only the nominal exchange rate. A country should therefore use fiscal or structural policies to correct its external position.

Still, most countries will need to take the exchange rate into account in setting monetary policy because, given the openness of their economies, movements in the exchange rate can have an important impact on inflation. Furthermore, a thin foreign exchange market or temporary shocks can lead to disruptive exchange rate volatility. Central banks need to inform the public that policies to influence the exchange rate are intended solely to limit any untoward impact on inflation and financial stability.

Policymakers also need to understand the ways in which the different policy instruments operate, their potential to reinforce one another, and how policy

The inflation target must take precedence over any exchange rate objective.

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tensions can arise. Debt management and fiscal and monetary policies can reinforce one another in helping lower the risk premium in the structure of long-term interest rates or, in many emerging market countries, help foster the emergence of a market for government securities. ■

Copies of IMF Working Paper 02/102, *Establishing Initial Conditions in Support of Inflation Targeting*, by Alina Carare, Andrea Schaechter, Mark Stone, and Mark Zelmer, are available for $10.00 each from IMF Publication Services. See page 235 for ordering information. The full text is also available on the IMF's website (www.imf.org).

Members drawing on the IMF "purchase" other members' currencies or SDRs with an equivalent amount of their own currency.

Stand-By, EFF, and PRGF Arrangements as of June 30

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By				
Argentina[1]	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Brazil[1]	September 14, 2001	December 13, 2002	12,144.40	759.03
Bulgaria	February 27, 2002	February 26, 2004	240.00	208.00
Guatemala	April 1, 2002	March 31, 2003	84.00	84.00
Latvia	April 20, 2001	December 19, 2002	33.00	33.00
Lithuania	August 30, 2001	March 29, 2003	86.52	86.52
Peru	February 1, 2002	February 29, 2004	255.00	255.00
Romania	October 31, 2001	April 29, 2003	300.00	248.00
Sri Lanka	April 20, 2001	August 19, 2002	200.00	48.32
Turkey[1]	February 4, 2002	December 31, 2004	12,821.20	4,627.20
Uruguay[1]	April 1, 2002	March 31, 2004	1,752.30	1,243.60
Total			**44,853.22**	**14,773.16**
EFF				
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
Indonesia	February 4, 2000	December 31, 2003	3,638.00	1,651.48
Serbia/Montenegro	May 14, 2002	May 13, 2005	650.00	600.00
Ukraine	September 4, 1998	September 3, 2002	1,919.95	726.95
Total			**8,164.95**	**4,935.43**
PRGF				
Albania	June 21, 2002	June 20, 2005	28.00	24.00
Armenia	May 23, 2001	May 22, 2004	69.00	59.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	64.35
Benin	July 17, 2000	July 16, 2003	27.00	12.12
Burkina Faso	September 10, 1999	December 9, 2002	39.12	5.58
Cambodia	October 22, 1999	February 28, 2003	58.50	16.72
Cameroon	December 21, 2000	December 20, 2003	111.42	63.66
Cape Verde	April 10, 2002	April 9, 2005	8.64	7.41
Chad	January 7, 2000	January 6, 2003	47.60	15.80
Congo, Dem. Republic of	June 12, 2002	June 11, 2005	580.00	160.00
Côte d'Ivoire	March 29, 2002	March 27, 2005	292.68	234.14
Djibouti	October 18, 1999	October 17, 2002	19.08	10.00
Ethiopia	March 22, 2001	March 21, 2004	100.28	41.72
Georgia	January 12, 2001	January 11, 2004	108.00	81.00
Ghana	May 3, 1999	November 30, 2002	228.80	52.58
Guinea	May 2, 2001	May 1, 2004	64.26	51.41
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Honduras	March 26, 1999	December 31, 2002	156.75	48.45
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	December 6, 2001	December 5, 2004	73.40	61.68
Lao People's Dem. Rep.	April 25, 2001	April 24, 2004	31.70	22.64
Lesotho	March 9, 2001	March 8, 2004	24.50	14.00
Madagascar	March 1, 2001	February 29, 2004	79.43	56.74
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	19.65
Mauritania	July 21, 1999	December 20, 2002	42.49	6.07
Moldova	December 21, 2000	December 20, 2003	110.88	92.40
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2003	87.20	16.80
Niger	December 22, 2000	December 21, 2003	59.20	33.82
Pakistan	December 6, 2001	December 5, 2004	1,033.70	861.40
São Tomé & Príncipe	April 28, 2000	April 27, 2003	6.66	4.76
Sierra Leone	September 26, 2001	September 25, 2004	130.84	74.67
Tanzania	April 4, 2000	April 3, 2003	135.00	35.00
Vietnam	April 13, 2001	April 12, 2004	290.00	207.20
Zambia	March 25, 1999	March 28, 2003	278.90	124.20
Total			**4,732.60**	**2,807.58**
Grand total			**57,750.77**	**22,516.17**

[1]Includes amounts under Supplemental Reserve Facility.
EFF = Extended Fund Facility
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals owing to rounding.

Data: IMF Treasurer's Department

Can countries always spend their way out of recessions?

With many governments ceding control over interest rates to independent central banks, fiscal policy is the key remaining government tool for stabilizing the economy. But how effective is fiscal policy at stimulating economic activity, particularly during recessions? A new study by Richard Hemming, Selma Mahfouz, and Axel Schimmelpfennig examines the evidence that, despite Keynesian orthodoxy, fiscal policy is only marginally effective in countering economic downturns.

Macroeconomic thinking is still sympathetic to the Keynesian view that governments should spend their way out of recessions. But experience over the past decade is calling this into question. Economists have found that the direct impact of fiscal expansion on economic activity, known as the multiplier effect, is often quite small, creating doubts about the payoff to fiscal expansion.

A further challenge to the Keynesian view arose from Europe's experience during the 1990s, which suggested that, in some circumstances, fiscal contractions could be expansionary or, in other words, that fiscal multipliers could be negative. This is not as bizarre as it may at first seem. If a fiscal contraction restores fiscal sustainability and thus signals that the government will not need to raise taxes in the future or even default on some of its debt, growth can pick up as interest rates decline and the confidence of households and firms improves.

Uncertainty about the impact of fiscal policy on growth is reflected in debates about its role during the Asian crisis, in attempts to turn around the stagnant Japanese economy, and in questions about the best response to the recent slowdown in the United States, as well as in the concurrent weakening in the euro area.

Hemming, Mahfouz, and Schimmelpfennig set out to establish whether fiscal expansions have been relatively effective or ineffective in stimulating economic activity during recessions and to work out the circumstances under which fiscal contractions may be expansionary. They examine 61 recessionary periods in 27 of the 29 advanced economies during 1971–98. This period covers the impact of the two oil shocks, the global recession of the early 1990s, and the Asian crisis. With an average length of slightly less than one and a half years, the typical recession is quite short—most last a year, while only a few are longer than two years. The rationale for concentrating on recession episodes is that fiscal policy is more likely to be used as a stabilization mechanism during recessions, and its effectiveness in this regard should be more apparent.

Track record for fiscal policy

What the authors find is that the fiscal response to a recession is on average toward a larger deficit, with the fiscal balance deteriorating by slightly less than 2 percent of GDP. Of the 61 recession episodes, fiscal policy was expansionary in this sense in 49 (or 80 percent) of the cases, with the fiscal balance deteriorating by 2½ percent of GDP on average. For the 12 recession episodes in which policymakers responded with fiscal contraction, the fiscal balance improved by about ¾ of 1 percent of GDP on average. Fiscal deficits are the norm before, during, and after recession episodes.

Why is the fiscal response to recessions in some cases expansionary and in other cases contractionary? A number of factors could be at work. The initial fiscal position could clearly be important, and, on average, fiscal deficits and debt are indeed much lower before fiscal expansions, which the authors say is to be expected given that this provides more room for fiscal policy maneuver. Government size is also slightly bigger, which probably reflects a correlation between government size—and, in particular, the size of the welfare state—and the strength of automatic stabilizers—progressive taxes and welfare payments that kick in when workers lose their jobs.

Macroeconomic conditions could also matter. Fiscal expansions typically occur against the background of initially higher growth and a stronger reserve position, both of which are unsurprising. They also accompany negative terms of trade changes. The finding that larger current account deficits and higher inflation precede fiscal expansions is distinctly counterintuitive, the authors remark, although the latter could reflect the fact that inflation was higher and fiscal policy looser in many advanced economies during the 1970s and 1980s.

When are fiscal expansions effective?

Based on their research, the authors conclude that fiscal expansions are more effective when

- there is *excess capacity* in the economy in the year before a recession.
- the *economy is open and has a fixed exchange rate*. This is the standard prediction, because monetary policy is directed toward preserving the fixed exchange rate, and fiscal policy is therefore not significantly crowded out by interest rates or the exchange

Fiscal expansions are more effective when there is excess capacity in the economy in the year before a recession.

Given a government size of about 40 percent of GDP, which is the sample's mean, a fiscal deficit of 3 percent of GDP or lower is typically associated with a fiscal expansion.

rate. Fiscal expansions are also more effective in closed economies than in open economies with a flexible exchange rate.

- *debt* is in the first instance low, but not when the fiscal deficit is initially low. Fiscal contractions are generally more effective when the fiscal deficit is in the first instance high, but not when debt is initially high. The latter is especially surprising, the authors say, given that high debt is a well-established feature of a fiscal contraction associated with economic expansion. That fiscal expansions are generally more effective when government is big is probably because larger automatic stabilizers provide a more timely and effective response to recessions.
- the expansion is *expenditure-based*. This reflects the fact that fiscal multipliers are larger for expenditure increases than for tax cuts. Fiscal contractions are more effective when they are based on expenditures, which is an established characteristic of expansionary fiscal contractions.
- the expansion is *accompanied by expansionary monetary policy*.

Response determines depth of recession

Using an econometric model, the authors find that choices about fiscal response are determined by a country's fiscal balance before a recession and by government size. Governments that have pursued sound fiscal policies in good times have additional room to maneuver in bad times. Given a government size of about 40 percent of GDP, which is the sample's mean, a fiscal deficit of 3 percent of GDP or lower is typically associated with a fiscal expansion.

The depth of recession is determined by the fiscal response, and the authors find that in a closed economy the marginal effect of fiscal policy is Keynesian. A fiscal expansion equivalent to 1 percentage point of GDP increases growth during a recession by 0.7 percentage point. However, the result is different in open economies, which see an overall reduction in growth by 0.8 percentage point when the exchange rate is flexible and by 0.4 percentage point when it is fixed—in other words, in an open economy, fiscal policy becomes non-Keynesian. The authors also find that countries with bigger governments have shallower recessions, but this effect is independent of the size of the fiscal response and therefore not necessarily indicative of the relative effectiveness of automatic stabilizers.

Other factors

One question that remains is whether fiscal policy has stronger effects than are being picked up by the empirical work described by Hemming, Mahfouz, and Schimmelpfennig. A number of considerations, they suggest, could have a bearing on this answer.

First, they caution that the paper does not present a full-fledged analysis of the determinants of growth during recessions, and key factors that could influence the way short-term growth reacts to fiscal policy may not be properly taken into account. For example, it is widely accepted that fiscal policy in Japan will have a limited impact on the economy as long as structural impediments on the supply side remain.

Second, implementing fiscal policy is a tricky business. There are the usual lags in recognizing the need for a fiscal response, designing appropriate measures, and then approving them. This means that fiscal policy may kick in too late and end up being procyclical. This problem is compounded where politicians cannot agree on the required measures. The consequence may be that, in terms of their impact on demand, fiscal responses are routinely weaker than intended or needed to elicit a significant growth response.

Third, fiscal systems may have institutional weaknesses that make it difficult to implement fiscal policy as intended. And, fourth, it may be necessary to pay more careful attention to the distinction between automatic stabilizers and discretionary measures. Automatic stabilizers may be able to deliver a more timely and more effective fiscal response to a recession. Whether they can do so is certainly of some interest in the euro area, where the emphasis is on using automatic stabilizers that tend to be larger than in other advanced economies. Discretionary measures can be tailored more specifically to the need to get out of a recession, but they have to be designed appropriately. Indeed, the authors observe, the ineffectiveness of fiscal policy may be due in part to badly designed measures. ■

Copies of Working Paper 02/87, *Fiscal Policy and Economic Activity During Recessions in Advanced Economies*, by Richard Hemming, Selma Mahfouz, and Axel Schimmelpfennig, are available for $10.00 each from IMF Publications Services. See page 235 for ordering information. The full text is also available on the IMF's website, www.imf.org.

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National statistical systems

Better governance can enhance data quality

Sound policies and good governance—elements that world leaders at the recent United Nations Conference on Financing for Development, held in Monterrey, Mexico, deemed essential for sustainable development—are highly dependent upon accurate, credible, and timely statistics. But the quality of data is itself contingent upon the quality of governance in national statistical agencies. A high-level consultative seminar held on May 28–30 in Singapore gave national authorities an opportunity to share strategies on good governance and discuss how international agencies can help.

Meeting outside the conference are (left to right) Carol Carson, head of the IMF's Statistics Department; Paul Cheung, Chief Statistician, Singapore Department of Statistics; and Anila Bandaranike, Director, Statistics Department, Central Bank of Sri Lanka.

Under the aegis of the IMF's Statistics Department, the United Nations' Statistics Division, and the Singapore Department of Statistics, national authorities from more than 20 developed and developing countries gathered in Singapore for the Consultative Seminar on Governance of National Statistical Systems.

Over the course of the three-day high-level seminar, country representatives from Africa, Asia, the Caribbean, Europe, and the Middle East exchanged views on the problems they had confronted and the solutions that seemed to work. They also explored knowledge management, information technology, data integrity and relevance, respondent relations, legitimacy and credibility of statistical agencies, interagency coordination, and organizational models and strategic planning. The seminar served, Singapore's Chief Statistician, Paul Cheung, noted, "as an important international forum to discuss the critical governance issues of the organization and management of statistical systems."

There was fundamental agreement that high-quality official statistics are a key component of sound policymaking and effective decision making and thus represent a crucial building block in the economic and social development of any country. Modern statistical systems must function in increasingly complex and fast-changing environments, and national statistical systems must respond innovatively if they hope to capture in their statistics newly emerging products and services. The rapidity with which data are now being created and communicated underscores how important respondent relations and data transparency, integrity, and relevance are and how vital it is for national statistical systems to be seen as professional, credible, and legitimate.

Why good governance matters

The success of modern national statistical systems is intrinsically linked to how well its managers ensure the integrity and credibility of data, build up the relevant knowledge base, organize the use of information technology, promote effectiveness, and carry out strategic planning. Ben Kiregyera, Chair of Uganda's Bureau of Statistics, described how his semiautonomous bureau was able to create "a coordinated and demand-driven national statistical system and demonstrable government commitment to statistical development." A key element of this reform, he said, was to put into place "attractive terms and conditions of service" to attract a high-quality professional staff. In a similar vein, the Director General of the Statistical Institute of Jamaica, Sonia Jackson, recounted how increased demands for improvements in the timeliness and scope of information have led to plans for a "new organization structure" with the status, funding, staffing, and technology to support this expanded mandate.

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
July 8	2.33	2.33	2.98
July 15	2.28	2.28	2.92

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/cgi-shl/bur.pl?2002).

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Data: IMF Treasurer's Department

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Seminar participants stressed that good governance of national statistical systems has far-reaching ramifications, fostering accountability and transparency in the government as a whole. Within individual institutions, good governance improves responsiveness and cost-effectiveness, raises professional standards, and strengthens the perception of objectivity and thus raises public trust in the statistical data.

Heads of national statistical agencies and central bank units from around the world attended the three-day seminar on governance, which also drew senior representatives from international and regional organizations.

But while there is broad agreement on the importance of good governance, the participants cautioned against looking for a single formula to address governance issues. Managers of national statistical agencies work in a wide variety of political, institutional, and organizational contexts. And centralized and decentralized statistical systems, for example, require different approaches to managing governance.

Participants focused on broad measures that had widespread applicability. They pointed to the importance of countering the erosion of institutional knowledge, promoting a culture of openness and teamwork, collaborating with academic and other knowledge-producing institutions, and maintaining independence on professional matters. National statistical systems, they stressed, could also benefit from the implementation of some well-respected tools and good practices, notably the use of release calendars for data reporting and transparent procedures for data revisions, regular reviews of the statistical program and user consultations, careful procedures to protect confidentiality, and formal procedures to prevent or manage crises. A business strategy and a statistical program that takes account of overall government priorities and other external influences provide the framework within which all of these efforts and practices can be integrated.

There was room for improved governance even in a well-established statistical agency. Commenting on his organization's long experience with knowledge management, Dennis Trewin, Chief Statistician of the Australian Bureau of Statistics (ABS), explained that ABS not only derived more efficient processes and more effective use of technology but also, and more important, effected a positive change in the organization's "culture and behavior." This led to greater openness, more consistency, and a higher degree of commitment to the organization's overarching objectives of satisfying the needs of the various users of statistics.

International organizations can help

National statistical organizations must take the lead in improving governance, but many participants indicated there was a role, too, for international organizations. Participation in the UN's Fundamental Principles of Official Statistics and in the IMF's Special Data Dissemination Standard or General Data Dissemination System had, according to the participants, already helped increase the credibility and the legitimacy of their statistics and statistical agencies.

But there was clearly more scope for expanded technical assistance and greater training in statistical organization and in governance issues—areas viewed as integral to statistical capacity building. Participants noted that regional approaches helped increase the relevance of technical assistance, and greater donor coordination boosted the efficient use of scarce resources. International agencies could also wield considerable influence with senior government officials and in contacts with the media and help raise the profile of statistical issues and priorities.

In closing, Carol Carson, Director of the IMF's Statistics Department, asked participants what they had appreciated most in the seminar. A large number cited the value of sharing firsthand experiences, learning new approaches to common problems, and discovering new tools, especially in the areas of knowledge management and information technology. The seminar's emphasis on credibility and legitimacy reinforced the message that governance matters, and all appreciated the focus on action, since it was clear that there was much that both national statistical agencies and international organizations could do to promote better governance. ■

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